Board Composition Diversity and Corporate Social Reporting: An Empirical Study in Bangladesh Perspective

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Abstract

The study examines the relationship between diversity of firm's board composition and corporate social responsibility reporting of Bangladeshi listed commercial banking firms in the period from 2011 to 2015. Corporate social responsibility disclosure index indicates lower level of disclosure issues with extensive narrative discussion. The study finds significant positive relationship of board activity, board expertise with corporate social responsibility disclosure. It is also found that board ownership and CEO/ chairman duality are negatively associated with corporate social responsibility disclosure having negative impact on bank's corporate social performance and reporting. The study did not find any evidence related with independent board members to have significant positive impact on CSR disclosure of banking firms. The findings of the study are expected to have important implications for wider stakeholder society and will create further research scope in future.

Keywords: Corporate social responsibility reporting, Board composition variables, Banking industry

1. Introduction

Corporate Social Responsibility (CSR) is becoming more and more dominant due to increasing interdependence between business firms and society. In developing countries like Bangladesh, composition and diversity of board have crucial impacts on firm's decision making. Rao and Tilt (2015) stated that CSR reporting is closely related with board composition and it is the outcome of board decision. Due to the voluntary CSR practice by firms in Bangladesh, it is necessary to critically investigate the relationship between board characteristics and extent of CSR disclosers. Sahin et al. (2011) mentioned that firms have already paid significant attention on the interrelationship between board composition, corporate social responsibility and financial performance. Though there are notable studies on the issues like board composition and CSR, mostly are in developed country perspectives. In Bangladesh, no prior study was conducted examining the relationship between diverse board characteristics and CSR reporting. Previous CSR studies in Bangladesh are mostly concentrated on measuring the quantity of CSR disclosure by firms. As a part of institutional governance, board composition and characteristics play a vital role in determining the quantity and quality of CSR disclosures. Diversity among board members has the potential to influence financial performance and reporting (Rose, 2007). Several diversified board characteristics have been taken into consideration to investigate the influence of board on CSR reporting. The specific board factors are board size, board independence, board activity, board expertise, board ownership, board remuneration, CEO-chairman duality which are expected to be related with CSR related decision making and implementation. Increasing CSR regulation in developed countries (EU or USA) has led to growing research interest on corporate governance issues like board composition in developing countries e.g. Bangladesh, Malaysia (Velte, 2017). This study is aimed to investigate how diversity of board composition with multiple characteristics determines the nature and extent of CSR disclosures in Bangladeshi banking firms.

2. Literature Review

Growing social, environmental and sustainability awareness of stakeholders has added immense value in external reporting particularly in CSR reporting (Kolk and Tulder, 2010). As a major decision making unit, board of directors exaggerates major influence on CSR performance and reporting (Kruger, 2009). Kakabadse (2007) stated that CSR is one of the crucial agenda of board and board of directors plays a key role in promoting CSR objectives (Jamali et al, 2008). The more recent study by Dienes et al. (2016) analyzed board composition variables as the determinants of sustainability reporting. Diversity of board composition basically represents heterogeneity among board member which may take different attributes into account like age, gender, expertise etc. (Knippenberg et al, 2004). A high level of heterogeneity was found in a study conducted by Sharif and Rashid (2014) where particular board composition variables were examined in the light of CSR quantity and quality. From agency theory perspective, Leong et al. (2015) found an impact of board composition on firm's performance and reporting. Significant influence of different board attributes on CSR is evidenced by several studies (Huang, 2010). Several studies have been done in developing countries perspective like Bangladesh (*see* Rouf2011, Khan et al., 2009, Ullah and Rahman, 2015), Malaysia (*see* Said et al., 2009) where studies focused on limited number of corporate governance variable or just measured the quantity of CSR disclosures.

Though there are substantial number of literatures on board attributes and CSR (Graaf & Herkstroter, 2007; Dunn & Sainty, 2009; Rao & Tilt, 2015; Ayuso et al., 2007 and Malik, 2015), no empirical study is found on Bangladeshi banking sector investigating the relationship between various diversified board composition factors and extent of CSR reporting.

3. Hypothesis Development

3.1 Board Size

Among the different board composition variable, board size is the most common one and is supposed to have crucial impact on CSR performance and reporting. A study found that smaller boards are more effective than large boards from monitoring and controlling perspective (Dey, 2008). On the other hand, several empirical findings suggest that board size depends on some particular factors like industry, firm size, extent of operation etc. (Pathan, 2009). This study thinks that larger board size is supposed to be effective on the ground that higher number of directors in the board can take more dynamic CSR decisions and make them implemented. Another point is that complexity of banking operations normally demands large board size.

H_1: Large board size facilitates CSR activities and is positively related with CSR reporting.

3.2 Board Independence

The number of independent directors in the board is supposed to influence the degree of CSR performance and reporting. As independent directors are less dependent on CEO's goodwill and image than executive directors, they can closely monitor and control management's activities (Jizi et al. 2013). In relation with the resource dependence theory, shareholder's interest and corporate image can be best ensured by the independent board (Dunn &Sainty, 2009; Webb, 2004). This study also assumes that higher number of independent directors in the board is expected to yield better CSR disclosures.

H_2: Board independence is positively correlated with CSR reporting.

Independent directors may be less focused on attaining short run financial goals as their remuneration is not linked with financial parameters like sales growth, net profit etc.

3.3 Board Ownership

The percentage of shares owned by the board members is expected to have a crucial impact on CSR performance and reporting. From resource dependence theory perspective, it can be assumed that higher ownership of sponsors and directors can reduce board's concentration on voluntary external reporting like CSR reporting due to lower amount of institutional and public equity. Different empirical findings show different results in relation to the association between ownership concentration and CSR reporting. Ghazali & Wheetman (2006) found no significant relationship between ownership and CSR disclosures. By contrast, a positive relationship between ownership concentration and voluntary disclosure was found by Chau and Gray (2002). This study assumes the following hypothesis regarding board ownership-

H_3: Higher board ownership has negative impact on CSR disclosures.

3.4 Board Activity

Frequency of board meeting is used as a common proxy to measure board activity (Velte, 2017). In financial industry like banking sector, it is not clear whether board activity influences CSR reporting. Some studies found a positive relationship between board activity and CSR disclosures which excluded financial industry (*See* Alotaibi & Hussainy, 2016; Benomran et al. 2015; Darus et al. 2015; Shamil et al. 2014). This study assumes that number of board meetings can be considered as the base of decision making activity and following up of decision implementation. Hence this study hypothesizes that:

H_4: There is a positive relationship between board activity and CSR reporting.

3.5 Board Expertise

Board expertise is not as common as other board attributes like board size, board independence etc. in CSR research (Velte, 2017). But board expertise can be logically linked with CSR strategy formulation and implementation. Though board expertise is hard to measure, this study uses professional and academic degree as a determinant of expertise. Board members with professional degree like Chartered Accountancy, ACCA, CIMA are supposed to be professionally and strategically sound enough than other members to accomplish better CSR governance and reporting. Board members with academic background having PhD degree are also supposed to be effective in decision making and influence to foster better CSR reporting.

H_5: There is a positive relationship between board expertise and CSR reporting.

3.6 CEO-Chairman Duality

CEO-chairman duality is another dominating factor in board composition which basically represents the autonomy and unique power of top board personnel. CEO-chairman duality may have significant impact on CSR decisions, performance and reporting. CEO-chairman duality can be seen both as a sign and an instrument of managerial power (Jizi et al, 2013). Board of director’s attention to monitoring is negatively affected by CEO-chairman duality (Tuggel et al., 2010). This study also hypothesizes that duality in CEO and chairman may restrict the socially responsible activities and their external reporting.

H_6: There is negative relationship between CEO-chairman duality and CSR reporting

4. Banking Industry and CSR

Compared to the other industries, qualitative and non-financial reporting practices in banking industry is better in Bangladesh though some of the institutions of this industry are yet to quit from classical 'profit maximization' motive. Though banks are not directly involved with manufacturing units and hence do not directly discharge CO_2or other hazardous chemicals to pollute environment but they should take part in CSR activities to strike a goal between economic and social regime (Ahmed et al, 2012). Due to the lack of policy prior to 2008, there was a scarcity of structured CSR reporting in the banking industry of Bangladesh. Previous studies investigating the CSR reporting practices in Bangladesh found that the level of CSR disclosure is significantly low and mostly in descriptive nature highlighting the positive impact of the news (Khan et al. 2013). The role of board of directors of banking firms in relation to CSR reporting is very crucial in Bangladesh context. Family dominance and weakness of the board result poor CSR performance and reporting. Family dominance in the board of directors were found by Reaz & Arun (2006): Uddin & Choudhury (2008). Uddin & Choudhury (2008) also mentioned a clear absence of group pressure from institutional investors in Bangladesh. Realizing the consequence of the fact, SEC order (2006) included the proposal of increasing the number of independent directors in the board. It is another interest of the study that whether such regulation related with independent board members has resulted better CSR disclosures.

5. Research Design

5.1 Sample and Data

Initial sample of the study consists of all banking firms listed in Dhaka Stock Exchange. Total 30 banks listed in Dhaka Stock Exchange (DSE) with 5 years period from 2011 to 2015 have been taken into consideration for this study. The 5 years data period from 2011-2014 has been selected due to the new SRO issued by the Bangladesh Government (GoB,2011) in 2011where government mentioned maximum threshold of Tk. 80 million or 20 percent of total income of the companies for CSR related activities and 10 percent tax rebate will be qualified. Total 149 banking firm years have been investigated and one banking firm year has been dropped due to unavailability of annual report. Annual reports have been used to collect data and different variables related to the bank's board and governance. Same data source has also been applied to calculate corporate social responsibility index and check the compliance of corporate social responsibility reporting disclosures of banks. To review the literature and relevant theoretical aspects, Google Scholar has been used to search and download substantial scholar articles published in different reputed journals.

5.2 Model Specification

Multiple regression analysis has been used to test the relationship between board composition variables and corporate social responsibility disclosure index. Variance Inflation Factor (VIF) has been used to test multicolliearity between independent variables of the model. Following is the regression equation-

$$CSRD = \alpha + \beta_1 BS + \beta_2 BI + \beta_3 BO + \beta_4 BA + \beta_5 BE + \beta_6 Duality + \varepsilon$$

CSRD = Corporate Social Responsibility Disclosure Index.

BS = Board Size.

BI = Board Independence.

BO = Board Ownership.

BA = Board Activity.

BE = Board Expertise.

Duality = CEO/Chairman Duality.

Board composition variables which are acting as independent variables of the model are board size (BS), board independence (BI), board ownership (BO), board activity (BA), board expertise (BE) and duality of CEO and Chairman (Duality). Board size represents total number of board of directors of a firm. Board independence consists of number of independent directors in the board. Board ownership variable represents the propor6tion of capital owned by sponsors and directors. Number of board meetings in a financial year is represented by the board activity. Board expertise variable is measured by the professional expertise of the board member with existence of professional and academic degree. Duality is a dichotomous variable which indicates whether a single person is holding the position of both CEO/managing director and chairman of the board. Two additional variables have included as control variables which are Leverage (Lev) and Credit Rating (CR).

Corporate Social Responsibility Disclosure Index (CSRD) represents dependent variable of this study. To construct CSRD index, a checklist is prepared containing 31 disclosure items of four different categories i.e. society, environment, employee and customer (see, Appendix 1).Checklist is constructed following a particular study of Startling et al. (2013). Dichotomous procedure has been used where 1 is awarded in case of existence of a particular CSR disclosure. Existence of a particular disclosure is ensured by reading the entire annual report which is in line with the study of Cook (1992).

6. Result and Analysis

6.1 Descriptive Statistics

Table 1 represents descriptive statistics of dependent variable Corporate Social Responsibility Disclosure (CSRD) which shows CSR reporting trend from 2011 to 2014. Total 31 disclosure items are included in the study. In 2007, mean disclosure of 29 banking firms is 7.724138 with a minimum of 0 and maximum of 11which indicates wide variation of CSR reporting among firms.

Table 1. Corporate social responsibility trend 2011-2014

Years	N	Mean	Std. Dev.	Min	Max
2011	29	7.724138	2.57594	0	11
2012	30	8.533333	3.510903	0	17
2013	30	8.7	3.69669	0	20
2014	30	9.4	4.924254	2	26
2015	30	8.333333	4.551115	0	17
Overall	149	8.543624	3.930964	0	26

In 2012, mean score has slightly increased with a maximum 17 items disclosure but minimum score remains same as 2011. In 2015 things have not changed much and mean disclosure score has been limited within below 9. Overall mean score of CSRD index for 149 banking firms from 2011 to 2014 is 8.543624 with minimum and maximum score 0 and 26 respectively.

6.2 Descriptive Statistics: Independent and Control Variables

Table 2 represents descriptive statistics of independent and control variables. There are six independent variables and two control variables with 149 banking firm years as number of observation for all independent variables. Board size (BS) has mean 14.46 with minimum 5 board members and maximum 26 board members. On an average nearly 2 (mean 1.93) board members are independent with minimum 0 and maximum 6 independent board members.

Board activity is measured by number of board meetings where mean score is 18.4094 with 7 minimum and 37 maximum board meetings. On an average just one person (mean 1.0536) in the board has professional degree or PhD which is supposed to be determinant of expertise. Very negligible amount of existence has been found in duality of CEO and chairman of the board. Satisfactory mean score of credit rating of 147 banking firms is found with maximum rating point 3.

Table 2. Descriptive statistics of independent and control variables

Variables	N	Mean	Std. Dev.	Min	Max
BS	149	14.46309	4.337959	5	26
BI	149	1.932886	1.183584	0	6
BO	149	34.25671	16.52017	0	62.33
BA	149	18.4094	6.459869	7	37
BE	149	1.053691	1.250866	0	6
Duality	149	.0067114	.0819232	0	1
CR	147	1.802721	.5186845	0	3
Lev	142	10.86288	3.882127	1.01	25.43

6.3 Correlation Analysis

Table 3 presents Pearson correlation matrix of explanatory variables. Correlation matrix in Table 3 shows no strong correlation between variables. Board size (BS), board independence (BI), board ownership (BO) is positively correlated with CSRD. Maximum correlation has been found between BE and CSRD which is 0.3444. Negative correlation has been between BA and BO. Similarly BE is also negatively correlated BS and BO.

Variable Inflation Factor (VIF) test has been used to check whether there exists multicollinearity between independent variables. VIF result has confirmed that no multicollinearity exists and VIF mean value is 1.12.

Table 3. Pearson Correlation Matrix

The table represents Pearson Correlation Matrix where CSRD = Corporate Social Responsibility Disclosure, BS= Board Size, BI= Board Independence, BO= Board Ownership, BA= Board Activity, BE= Board Expertise, Duality= CEO/ Chairman Duality, CR= Credit Rating. CR is the control variable of the regression model. Significance level 1%, 5% and 10% are represented by ***, **, and * respectively.

	CSRD	BS	BI	BO	BA	BE	Duality	CR	LEV
CSRD	1.000								
BS	0.183**	1.000							
BI	0.1560 *	0.118	1.000						
BO	0.047	0.142*	0.289***	1.000					
BA	0.313***	0.200**	0.008	- 0.278***	1.000				
BE	0.344***	- 0.002	0.116	- 0.166**	0.142*	1.000			
Duality	0.179**	-0.084	- 0.0650	0.030	-0.030	- 0.069	1.000		
CR	- 0.075	- 0.073	0.029	- 0.174**	0.112	0.058	0.031	1.000	
LEV	0.031	-0.303***	0.110	0.077	-0.126	0.181**	-0.020	-0.156	1.000

6.4 Regression Results

Table 4 presents the result of regression test of explanatory variables on corporate social responsibility disclosure (CSRD). Board size (BS) is the first explanatory variable which is predicted in the H_1 that board size is positively related with corporate social responsibility disclosure. The regression result shows no significant positive relationship between BS and CSRD resulting rejection of H_1 of the study.

Table 4. Multiple Regression Result

The table presents multiple regression results of corporate social responsibility and board composition diversity where the dependent variable is CSRD (Corporate Social Responsibility Disclosure). Independent variables are BS= Board Size, BI= Board Independence, BO= Board Ownership, BA= Board Activity, BE= Board Expertise, Duality= CEO/ Chairman Duality, CR= Credit Rating. CR is the control variable of the regression model. Significance level 1%, 5% and 10% are represented by ***, **, and * respectively.

	Predicted Sign	Coefficient (β)	t value	P value
BS	+	0.0769238	1.12	0.266
BI	+	0.1719423	0.67	0.504
BO	-	0.0376266	1.93	0.055*
BA	+	0.1771324	3.71	0.000***
BE	+	0.9847788	4.18	0.000***
Duality	-	-6.848444	-1.96	0.053*
Constant		1.557167	1.11	0 .267

In this regression model, F is 8.14, R^2 is 0.25560, and Adjusted $R^2$is 0.2246

In the second hypothesis of the study, board independence (BI) is predicted to have positive relationship with CSRD but regression result shows that the relationship is not significant with β = 0.1719423 and p = 0.67. The third explanatory variable, board ownership (BO) is predicted to have negative relationship in H_3 and regression result confirms the acceptance of H_3 with β = 0.0376266 and p = 0.055. This implies that higher percentage of director/sponsor ownership results lower corporate social responsibility performance and disclosures. Board activity (BA) has been predicted to have positive relationship with CSRD in H_4 and regression results confirms a significant positive relationship between BA and CSRD with β = 0.1771324 and p = 0.000. This result explains that more board activity (meeting) yields better corporate social responsibility disclosures. Similar regression result is also found between board expertise (BE) and CSRD with β = 0.1771324 and p= 0.000 which implies that there is a significant positive association between BE and CSRD which has been predicted in H_5 of this study. Duality in CEO and Chairman (Duality) of the board is also negatively associated with CSRD as regression results shows β = 0.0376266 and p = 0.055. This result goes according to the H_6 of the study and explains that duality in CEO and chairman yields poor corporate social responsibility disclosure.

7. Conclusion

The aim of the study is to investigate the impact of board composition variables over the corporate social responsibility reporting. Individual corporate social responsibility disclosure index has been made for each banking firm and it has been noticed that corporate social responsibility disclosure level is very low. Most of the disclosure items are descriptive in nature and are intended to convince the reader of annual report. It can also be mentioned that there is a lack of structured reporting in relation to corporate social responsibility and many banking firms are found to report similar CSR performance area like education, health sports etc. Very negligible amount of disclosure items are found on environment and customers which may be very essential in the present context. This study finds that board activity and board expertise are significantly associated with corporate social responsibility with strong positive impact illustrating that more board meeting and board members with professional and academic degree can play effective role to ensure better corporate social responsibility disclosures. Regression result has not found any statistical that independent members can facilitate better and quality corporate social responsibility disclosures.

Notwithstanding with the above findings of this study, there are some limitations like not categorizing disclosure items according to reporting quality. On the other hand, findings of the study is related to the banking industry which is less responsible for environmental and social hazard like pollution, deforestation etc. But this study is expected to portray a clear picture showing crucial relationship between board composition variables and corporate social responsibility reporting. This paper is also expected to create opportunities for further research in the literature.

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Appendixes

Appendix 1. CSR disclosure items

Category	Disclosure Items
Community	Contributions and donations to charities, NGOs and community activities
	Provision if support to students to continue their education and sponsoring sport activities
	Sponsoring health programs
	Sponsoring arts and culture
	Supporting sports and/or recreational projects
	Participation in social government campaigns
Environment	Bank's environmental policies and concerns
	Implemented systems for environmental management
	Environmental projects such as recycling and protection of natural resources
	Energy saving in performing business operations
Employee	Number of employees; health and safety policies and measures.
	Equal opportunities in employment (e.g. minorities, women)
	Training and education provided to employees (training policies and nature of training)
	Employee assistance/benefits
	Employee compensation
	Employee expertise and backgrounds
	Employee share purchase schemes
	The confidence and self-esteem of employees
	Employees' appreciation
	Issues related to the recruitment process
	Photos to document employee welfare (e.g. at social activities, award ceremonies)
	Discussion of employees' welfare
	Policies adopted regarding staff profit sharing
Customers	Diversity of social products (e.g. climate products, educational loans etc.)
	Discussion of the types of social products
	Geographical distribution and marketing network of the offered social products
	Discussions in relation to customers feedback
	Provision for disabled, frail and difficult-to-reach customers
	Investments in social responsibility activities
	Strategies and plans for future expansion in social products and services
	Loyalty programs and gifts to customers

Source: Stratling, R. et al. 2005; Gray et al. 1995b; Haniffa &Cooke 2005; Branco & Rodrigues, 2006; Scholtens, 2008; Holder Webb et al., 2009.

Appendix 2. VIF table

Variable	VIF	1/VIF
BO	1.28	0.782592
BA	1.17	0.851641
BI	1.14	0.875752
BS	1.10	0.907600
BE	1.07	0.932914
Duality	1.02	0.983280
Mean VIF	1.13	